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CIVIL SERVICE RETIREMENT ANNUITY ADJUSTMENTS

JUNE 17, 1965.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DANIELS, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany H.R. 8469]

The Committee on Post Office and Civil Service, to whom was referred the bill (H.R. 8469) to provide certain increases in annuities payable from the civil service retirement and disability fund, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

AMENDMENTS

The amendments are as follows:

(1) Page 2, line 7, strike out "such" and insert in lieu thereof "each".

(2) Page 3, line 7, strike out "September 1, 1950," and insert in lieu thereof "July 6, 1950,".

(3) Page 3, line 14, strike out all matter after the period in such line and all that follows down through the period in line 2 on page 4 and insert in lieu thereof the following:

> Effective the first day of the third month which begins after the price index shall have equaled a rise of at least 3 per centum for three consecutive months over the price index for the base month, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by the per centum rise in the price index (calculated on the highest level of the price index during the three consecutive months) adjusted to the nearest one-tenth of 1 per centum;

(4) Page 4, line 16, strike out "September 1, 1950," and insert in lieu thereof "July 6, 1950,".

(5) Page 4, lines 17 and 18, strike out the words "prior to".

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(6) Page 4, line 25, immediately before the first comma insert "for employee annuities which commenced after October 1, 1956".

Explanation of Amendments

The committee amendments, which are technical in nature, correct date references and provide clarifying language.

Amendment No. (1) inserts the word "each" in lieu of the word "such" to correct an error in the introduced bill.

Amendments Nos. (2) and (4) substitute the correct date, July 6, 1950, for the incorrect date, September 1, 1950, contained in the introduced bill.

Amendment No. (3) eliminates certain unnecessary and repetitive language in the introduced bill and inserts in lieu thereof more precise and definite language without in any way changing the policy of the introduced bill.

Amendment No. (5) eliminates language in the introduced bill which misstated the application of the annuity commencing date with respect to the computation of the increase in a survivor annuity.

Amendment No. (6) inserts language which conforms the policy of the bill with respect to adjustment of surviving children's benefits to the policy of the bill with respect to basic annuity increases.

Purpose of H.R. 8469

The purpose of this legislation is to provide equitable, moderate, and desperately needed adjustments in the annuities of Federal civil service retirees and survivors currently on the annuity rolls, to improve the existing cost-of-living adjustment principle by gearing it to a more sensitive monthly price index indicator, and to increase the survivorship protection of spouses of employees and future annuitants.

Statement

The history of civil service annuity adjustments to meet exploding costs of living has been one of too little and too late. The responsibility rests squarely on the Congress and there is general agreement that this problem requires our most immediate attention.

To think of a pension plan simply as a promise to pay a stated number of dollars monthly represents a superficial view. Pension plans are long-term financial operations, and the basic purpose to be served is to enable an employee to enjoy freedom from want and a measure of economic security upon the expiration of active employment and throughout his declining years. During the period of employment, the hopes and expectations of employees are continuoulsy built around the concept that they will be able to retire on a dignified basis and with enough income to meet their basic needs. It is the responsibility of the Government to maintain the annuities of its retirees and survivors at a level that will give them a living comparable to what they had, and rightfully expected to have, at the time of retirement.

The unprecedented expansion of our economy is a serious problem to active workers, but in a larger measure has become the mortal enemy of elder citizens that are caught between rising prices and fixed incomes. The impact on these senior citizens is far more critical than it is on any other segment of our economy.

The committee's Subcommittee on Retirement, Insurance, and Health Benefits held thorough hearings to consider the numerous pending annuity increase bills, and heard all witnesses who asked to testify. Representatives of organizations of retired Federal employees strongly urged the immediate approval of increases to meet the critical need of those living on small, fixed incomes to cope with the continued upward spiral of our vastly expanded economy. Every major organization of active Federal employees lent its support to these proposals. Many individual Members of Congress appeared in person or submitted statements recommending immediate increases in benefits. These witnesses presented testimony and evidence which the committee believes has clearly established the urgent need for the early adjustments provided in this legislation.

At a time when $3,000 yearly income is the borderline below which a married couple is deemed to be in the poverty class, the record shows that the bulk of the 700,000 civil service retirees and survivors are receiving annuities of much less than such amount. It is a well-known fact that medical costs have risen more than any other single item in the Consumer Price Index. Medical studies disclose that up to one-third of those 65 years of age or older are chronically ill, and that they have twice as many disabling illnesses lasting a week or longer as do persons under age 65. Moreover, the average disabling illness of the aged lasts twice as long as that of younger persons. During the past decade the cost of medical services has increased over 40 percent; doctors' fees over 35 percent; hospital charges over 85 percent; hospital insurance rates over 95 percent; and prescriptions and drugs over 10 percent.

As people over age 65 require more medical care, these cost items hit them particularly hard. They are confronted with reduced income, impaired health, depressed living standards—and, in most cases, with increased medical expenses. Federal civil service retirees and their survivors are truly the "forgotten people" in the economic life of the United States today. Even our social security programs has done better, relatively, for elder citizens in the private economy during recent years.

The reported bill provides fair, moderate, and direly needed adjustments designed to increase annuities where the greatest relief is warranted—approximately 10.2 percent in those annuities which commenced on or before October 1, 1956, and 5.2 percent in those which commenced thereafter. The difference in treatment is designed to close approximately one-half of the lag in annuity improvements for the pre-1956 retirees as compared to improvements which had benefited the post-1956 retirees. The 1956 retirement amendments improved the benefits of employees who retired thereafter, on the average, by over 20 percent, but did nothing to improve the lot of those who then were already on the annuity rolls. Subsequently, the pre-1956 retirees have received 10 percent more in the form of increases than have the post-1956 retirees, thus closing about half of the gap created by the 1956 amendments. This still leaves those retired on or before October 1, 1956, approximately 10 percent behind those retired after that date. H.R. 8469, therefore, will not completely close the gap, but will provide a much more reasonable relationship than presently exists between the two groups.

The bill also provides a slightly higher percentage increase for approximately 43,000 elderly widows of employees of annuitants who passed away at a time when no survivor protection was afforded by the law. Over the years the Congress has recognized the special equities and has granted these widows minimal annuities, in the nature of gratuities. In view of the very small size of these annuities—they average only $44 per month—the committee recommends an increase somewhat larger, for these widows, than the percentage provided for the other beneficiaries.

Testimony received during the hearings demonstrated that the automatic "cost-of-living adjustment" feature, contained in the 1962 amendments to the Retirement Act, has not operated as effectively as was anticipated. The Civil Service Commission agrees that such feature should be modified in fairness to annuitants, as well as for convenience of administration. This feature, which has not as yet become operable, provides that whenever the Consumer Price Index of the Bureau of Labor Statistics shall have risen by an average of 3 percent or more for a full calendar year above its average for 1962, a comparable percentage increase shall become effective on April 1 of the following year. It further provides similar increases when a like increase in the Consumer Price Index occurs after any increase predicated upon such feature.

The rise in the Consumer Price Index over 1962, although averaging 2.6 in 1964, reached 3 percent in November, 1964, and has steadily risen to 3.7 percent at present. However, under the existing formula, annuitants will receive no adjustment until April 1, 1966. To correct this obviously disappointing result, the bill proposes to accelerate the effective application of the cost-of-living principle to a more sensitive monthly price index indicator. The substantive policy will not be changed, but the revision will provide for reflecting any such increases more currently, or whenever the Consumer Price Index rises by 3 percent or more for 3 consecutive months after any previous increase resulting from this feature.

The bill not only makes the retirement fund available for payment of the adjustments, but also for payment of administrative expenses that may be incurred by the Civil Service Commission in effecting immediate and subsequent adjustments provided by this legislation.

H.R. 8469 further proposes to increase, from 55 to 60 percent of the earned annuity or of the survivor base selected by the retiring employee, the annuities of eligible spouses of those who retire or who die in service. Testimony presented in the hearings discloses that survivor benefits provided by present law are totally inadequate to meet the constantly increasing costs of living faced by survivor annuitants. The situation of survivors will continue to deteriorate unless the formula for computing their benefits is revised to counter these advances, as provided for in the bill.

The Civil Service Commission and the Bureau of the Budget, while conceding that some justification can be found for the immediate adjustment of existing annuities, at first recommended, in testimony during the hearings, that any retirement legislation be deferred until it can be considered in the findings of the President's Cabinet Committee on Federal Staff Retirement Systems, scheduled for completion by December 1965. In a later, special report of June 3, 1965 (printed at p. — of this report) the Commission's position is modified to give approval to the accelerated cost-of-living increase provisions of the reported bill.

In the judgment of the committee, the increases provided by H.R. 8469 will inure to the emergent need, and benefit those annuitants and survivors facing the greatest need. The committee emphasizes that the immediate relief of hardship to these victims of our expanding modern economy constitutes a moral obligation on the part of the Government, and urges approval of this proposed extension of benefits above and beyond those now provided by law.

Estimated Cost

The Civil Service Commission estimates the initial annual cost of the annuity increases proposed by the first section of H.R. 8469 to be $90.4 million. Section 2 would increase the normal cost of the system by 0.18 percent of the payroll, incurring an annual cost of approximately $58 million on the normal cost plus interest basis.

Explanation of the Bill by Sections

Subsection (a) of the first section of H.R. 8469 changes the definition of the term "price index" from the annual average of the Consumer Price Index over a calendar year to that published monthly by the Bureau of Labor Statistics. It further defines the month used in determining that the price index warrants a cost-of-living adjustment as the "base month." Inasmuch as the Consumer Price Index already has risen at least 3 percent since 1962—3.7 percent in April 1965—the "base month" would be that in which this bill is enacted.

Subsection (b) authorizes the Civil Service Commission to use moneys to the credit of the retirement fund to cover the administrative cost they will incur in putting the increases provided in the bill into effect, and particularly those Consumer Price Index adjustments that may occur at indeterminate intervals in the future. The Commission would not be in a position to anticipate, for budgeting purposes, the frequency in which the proposed adjustments may occur during the course of any fiscal year.

Subsection (c) fixes the effective date of the adjustments provided in this section as the first day of the third month beginning after date of enactment. It preserves the cost-of-living adjustment principle established in 1962, but amends the plan to gear it to a more sensitive monthly indicator in lieu of the existing unrealistic average calendar year indicator. The increases it provides are made up of two components which are applicable to three categories of annuitants in varying total percentages.

In the first component all existing annuities which commenced on or before such effective date would be increased by the percentage rise in the price index, adjusted to the nearest one-tenth of 1 percent, computed on the annual average index for 1962 and the monthly price index most recently published on the date of enactment. This component will accelerate the cost-of-living adjustment and make it applicable very promptly, rather than on April 1, 1966, as contemplated in existing law. It will give to all annuitants an increase of at least 3.7 percent, effective the third month which begins after enactment, in lieu of a deferred adjustment on April 1, 1966.

The second component grants additional increases effective with the first component, in percentages dependent upon the commencing date of annuity payments. All annuities which commenced on or before October 1, 1965, including the survivor annuities deriving from retirement annuities which so commended, will be increased by an added 6½ percent. All annuities which shall have commenced after October 1, 1956, and up until the effective date of the increases, will be increased by an added 1½ percent.

The total effect will give a combined increase of at least 10.2 percent to those whose annuities are based upon the law in existence on or before October 1, 1956, and not less than 5.2 percent to those whose annuities were computed under the liberalized formula made applicable after October 1, 1956, by the 1956 retirement amendments.

Subsection (c) also grants a slightly higher total increase in the benefits received by spouses of former employees who died or retired before survivor protection became generally available in 1948. This category consists of approximately 43,000 survivor annuitants, or 6 percent of the entire annuity enrollment, whose gift benefits were limited to maximums of $50 or $63 a month when awarded. Their annuities would be adjusted by an amount sufficient to make a total increase of the lesser of 15 percent or $10 a month. It is estimated that since these particular recipients' monthly benefits average $44, the average increase would approximate only $6.60 per month.

This subsection also establishes the month used in computing the first component of the increase as the base month for determining the percentage change in the price index until the next succeeding increase may occur. It requires the Civil Service Commission to determine the percentage change each month after the date of enactment. Effective the first day of the third month beginning after the price index show a rise of at least 3 percent for 3 consecutive months over the base month, an automatic increase will become payable. All annuities which commenced on or before such effective date will be increased by the percentage rise in the price index. Such an increase will be computed on the highest percent of the 3 consecutive months, adjusted to the nearest one-tenth of 1 percent. The month forming the basis for such future increase will become the new base month for determining the next cost-of-living adjustment.

The subsection preserves the cost-of-living adjustment principle to future retirees and survivors of deceased employees but restricts the amount of increase to only that percentage rise occurring on or after the commencing dates of their annuities. In the case of an annuitant who has retired prior to the effective date of the bill and dies thereafter, his survivor would be eligible to receive the equivalent percentage of the total increases that the annuitant was receiving under this section while alive. The special increase provided by this section is preserved for those surviving spouses of annuitants retired prior to the 1948 Retirement Act Amendments, and whose benefits were limited during the lifetime of the survivor.

While the bill preserves the increases allowed therein to children of annuitants who die after the effective date, for administrative convenience it establishes that the percentage increases shall be 1½ percent plus added cost-of-living increases, since their entitlement to fixed dollar benefits was acquired in section 10(d) of the 1956 amendments.

Subsection (d) retains the usual language precluding an increase on any additional portion of annuity that was purchased by a retiree by voluntary contributions.

13 Subsection (e) retains the customary requirement that the monthly annuity, as increased, be adjusted to the nearest dollar. It provides, however, for reflecting an increase of at least $1 per month wherever an increase would not otherwise cause a small annuity to be adjusted to the next higher dollar.

Section 2 amends existing law, effective from date of enactment, to provide that the annuities of eligible widows and widowers of employees who die in service, or who retire and die thereafter, be computed at the rate of 60 percent of the earned annuity or of the survivor base selected by the retiring employee. Existing law provides that such computation be at the rate of 55 percent of the earned annuity or selected base. Thus, the survivorship protection would be increased prospectively by one-eleventh, or 9.09 percent.

Section 3 authorizes payment of the increases provided by H.R. 8469 from the retirement fund and is similar to language necessary to give effect to prior annuity increase legislation. The increases would not otherwise be payable unless funds to cover their cost were to be appropriated.

ADMINISTRATIVE REPORT

Official report of the U.S. Civil Service Commission follows:

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., June, 3 1965.

Hon. DOMINICK V. DANIELS,
Chairman, Subcommittee on Retirement, Insurance, and Health Benefits, Committee on Post Office and Civil Service, House of Representatives.

DEAR MR. DANIELS: This is in response to your request of June 2, 1965, for the official views of the Commission on H.R. 8469, a bill to provide certain increases in annuities payable from the civil service retirement and disability fund, and for other purposes.

Effective the first day of the third month which begins after enactment, section 1 of H.R. 8469 would provide the following adjustments in existing annuities:

1. All annuities would be increased by the same percentage as the rise in the Consumer Price Index from the annual average of calendar year 1962 to the month latest published on date of enactment. Through April 1965 this rise has been 3.7 percent.
2. Annuities which began, or survivor annuities deriving from annuities which began, on or before October 1, 1956, would be further increased by 6½ percent; annuities which began after October 1, 1956, would be further increased by 1½ percent.
3. Annuities of widows and widowers of former employees who died or retired before the survivorship amendments of 1948, which annuities were later awarded as gifts limited to $50 or $63 a month, would be further increased by an amount sufficient to make the total increase equal the lesser of 15 percent of $10 a month.

For the future, annuities would be increased automatically to reflect changes in the cost of living. Such increases would occur whenever the monthly price index showed a rise of at least 3 percent for 3 consecutive months over the base month used for determining the most recent cost of living adjustment.

The bill would make the retirement fund available for the payment of benefits resulting from its enactment, and also for the payment of administrative expenses incurred by the Civil Service Commission in putting into effect the first and all subsequent annuity increases.

Section 2 of H.R. 8469 proposes that the annuities of eligible widows and widowers of employees who die in service or who retire and die after enactment will be 60 percent of the earned annuity or of the survivor base selected by the employee, instead of the 55 percent provided by existing law.

The initial annual cost of the annuity increases proposed by section 1 of H.R. 8469 is estimated to be $90.4 million, with an increase in the unfunded liability of about $924 million. Section 2 would increase the normal cost of the system by 0.18 percent of payroll. It would add $817 million to the unfunded liability, and would incur an annual cost of approximately $58 million on the normal cost-plus-interest basis.

By memorandum dated February 1, 1965, the President created the Cabinet Committee on Federal Staff Retirement Systems under the chairmanship of the Director of the Bureau of the Budget. In that memorandum he directed a review of the whole structure of our retirement policies, including the pattern and amounts of benefit payments. He specifically requested examination of survivor benefits available under the various plans.

The Commission is of the opinion that it would be best to defer retirement legislation until it can be considered in the light of the findings and recommendations which will be included in the committee report scheduled for completion by December 1, 1965. However, some justification can be found for immediate adjustment of existing annuities. In 1962 the Commission devised and submitted a plan for permanent adjustment of annuities to reflect changes in the cost of living, and that plan with minor revision was enacted as part of Public Law 87-793. Experience to date has shown that the mechanics for adjusting annuities to reflect living costs can be improved and the time element shortened by using the monthly price index instead of an annual average. Accordingly, the Commission will not object to enactment of H.R. 8469 insofar as it proposes adjustment of existing annuities to reflect changes in the cost of living.

We strongly recommend that section 2 be deleted from H.R. 8469. Section 2 is totally unrelated to the adjustment of existing annuities and proposes a major permanent liberalization in the retirement system. The proposal is made without regard to its relationship to other fringe benefits and without any demonstration of a need which would in any way justify its cost. It is the sort of piecemeal approach to retirement legislation which this administration seeks to check by the formulation of up-to-date policies in the light of the Cabinet Committee's study of the whole Federal retirement structure.

The Bureau of the Budget advises that enactment of H.R. 8469 would be inconsistent with the program of the President if it includes the provisions now in section 2 of the bill.

Several amendments of a technical nature have already been suggested to the staff of your committee by Commission staff. I trust you will approve this method rather than formal submission in view of the lack of time.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

CIVIL SERVICE RETIREMENT ACT

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DEFINITIONS

SECTION 1. Wherever used in this Act—

* * * * * * *

(t) The term "price index" shall mean the [annual average over a calendar year of the] Consumer Price Index (all items—United States city average) published monthly by the Bureau of Labor Statistics. *The term "base month" shall mean the month for which the price index showed a per centum rise forming the basis for a cost-of-living annuity increase.*

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SURVIVOR ANNUITIES

SEC. 10. (a)(1) If an employee or Member dies after having retired under any provision of this Act and is survived by a wife or husband to whom the employee or Member was married at the time of retirement, such wife or husband shall be paid an annuity equal to [55] *60* per centum of an annuity computed as provided in subsections (a), (b), (c), (d), (e), and (f) of section 9, as may apply with respect to the annuitant, or of such portion thereof as may have been designated in writing for such purpose by the employee or Member at the time of retirement, unless the employee or Member has notified the Commission in writing at the time of retirement that he does not desire his wife or husband to receive such annuity.

(2) An annuity computed under this subsection shall commence on the day after the retired employee or Member dies, and such annuity or any right thereto shall terminate on the last day of the month before the survivor's death or remarriage.

(b) The annuity of a survivor designated under section 9(h) shall be [55] *60* per centum of the reduced annuity computed as provided in subsections (a), (b), (c), (d), (e), (f), and (h) of section 9 as may apply with respect to the annuitant. The annuity of such survivor shall commence on the day after the retired employee or Member dies, and such annuity or any right thereto shall terminate on the last day of the month before the survivor's death.

(c) If an employee or a Member dies after completing at least five years of civilian service, the widow or dependent widower of such employee or Member shall be paid an annuity equal to [55] *60* per centum of an annuity computed as provided in subsections (a), (b), (c), (e), and (f) of section 9 as may apply with respect to the employee or Member. The annuity of such widow or dependent widower shall commence on the day after the employee or Member dies, and such annuity or any right thereto shall terminate on the last day of the month before (1) death or remarriage of the widow or widower or (2) the widower's becoming capable of self-support.

(d) If an employee or a Member dies after completing at least five years of civilian service, or an employee or a Member dies after having retired under any provision of the Act, and is survived by a wife or by a husband, each surviving child who received more than one-half of his support from such employee or Member shall be paid an annuity equal to the smallest of (1) 40 per centum of the employee's or Member's average salary divided by the number of children, (2) $600, or (3) $1,800 divided by the number of children. If such employee or Member is not survived by a wife or husband, each surviving child shall be paid an annuity equal to the smallest of (1) 50 per centum of the employee's or Member's average salary divided by the number of children, (2) $720, or (3) $2,160 divided by the number of children. The child's annuity shall commence on the day after the employee or Member dies, and such annuity granted under this Act or under the Act of May 29, 1930, as amended from and after February 28, 1948, or any right thereto shall terminate on the last day of the month before (1) his attaining age eighteen unless incapable of self-support, (2) his becoming capable of self-support after age eighteen, (3) his marriage, or (4) his death, except that the annuity of a child who is a student as described in section 1(j) shall terminate on the last day of the month before (1) his marriage, (2) his death, (3) his ceasing to be such a student, or (4) his attaining age twenty-one. Upon the death of the surviving wife or husband or termination of the annuity of the child, the annuity of any other child or children shall be recomputed and paid as though such wife, husband, or child had not survived the employee or Member.

(e) In case a Member separated from service with title to a deferred annuity under this Act, either prior to, on, or after the effective date of the Civil Service Retirement Act Amendments of 1956, shall hereafter die before having established a valid claim for annuity and is survived by a wife or husband to whom married at date of separation, such surviving wife or husband (1) shall be paid an annuity equal to [55] *60* per centum of the Member's deferred annuity commencing on the day after the Member's death and terminating on the last day of the month before death or remarriage of such surviving wife or husband or (2) may elect to receive a lump-sum credit in lieu of annuity if such wife or husband is the person who would be entitled to the lump-sum credit and files application therefor with the Commission prior to the award of such annuity.

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CIVIL SERVICE RETIREMENT AND DISABILITY FUND

SEC. 17. (a) The fund is hereby appropriated for the payment of benefits as provided in this Act, *and for payment of administrative expenses incurred by the Commission in placing in effect each annuity adjustment granted under section 18 of this Act.*

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[COST-OF-LIVING ADJUSTMENT OF ANNUITIES

[SEC.]18. (a) After January 1, 1964, and after each succeeding January 1, the Commission shall determine the per centum change in the price index from the later of 1962 or the year preceding the most recent cost-of-living adjustment to the latest complete year. On the basis of such Commission determination, the following adjustments shall be made:

[(1) Effective April 1, 1964, if the change in the price index from 1962 to 1963 shall have equaled a rise of at least 3 per centum, each annuity payable from the fund which has a commencing date earlier than January 2, 1963, shall be increased by the per centum rise in the price index adjusted to the nearest one-tenth of 1 per centum.

[(2) Effective April 1 of any year other than 1964 after the price index change shall have equaled a rise of at least 3 per centum, each annuity payable from the fund which has a commencing date earlier than January 2 of the preceding year shall be increased by the per centum rise in the price index adjusted to the nearest one-tenth of 1 per centum.

[(b) Eligibility for an annuity increase under this section shall be governed by the commencing date of each annuity payable from the fund as of the effective date of an increase, except as follows:

[(1) Effective from the date of the first increase under this section, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commenced the day after the annuitant's death, shall be increased as provided in subsection (a)(1) or (a)(2) if the commencing date of annuity to the annuitant was earlier than January 2 of the year preceding the first increase.

[(2) Effective from its commencing date, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commences the day after the annuitant's death and after the effective date of the first increase under this section, shall be increased by the total per centum increase the annuitant was receiving under this section at death.

[(3) For purposes of computing an annuity which commences after the effective date of the first increase under this section to a child under section 10(d), the items $600, $720, $1,800, and $2,160 appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section, and, in case of a deceased annuitant, the items 40 per centum and 50 per centum appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section to the annuitant at death. Effective from the date of the first increase under this section, the provisions of this paragraph shall apply as if such first increase were in effect with respect to computation of a child's annuity under section 10(d) which commenced between January 2 of the year preceding the first increase and the effective date of the first increase.

[(c) No increase in annuity provided by this section shall be computed on any additional annuity purchased at retirement by voluntary contributions.

[(d) The monthly installment of annuity after adjustment under this section shall be fixed at the nearest dollar.]

SEC. 18. (a) Effective the first day of the third month which begins after the date of enactment of this amendment, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by (1) the per centum rise in the price index, adjusted to the nearest one-tenth of 1 per centum, determined by the Commission on the basis of the annual average price index for calendar year 1962 and the price index for the month latest published on date of enactment of this amendment, plus (2) 6½ per centum if the commencing date (or in the case of the survivor of a deceased annuitant the commencing date of the annuity of the retired employee) occurred on or before October 1, 1956, or 1½ per centum if the commencing date (or in the case of the survivor of a deceased annuitant the commencing date of the annuity of the retired employee) occurred after October 1, 1956. The month used in determining the increase based on the per centum rise in the price index under this subsection shall be the base month for determining the per centum change in the price index until the next succeeding increase occurs. Each survivor annuity authorized (1) by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, or (2) by section 2 of Public Law 85–465, shall be increased by any additional amount which may be required to make the total increase under this subsection equal to 15 per centum or $10 per month, whichever is the lesser.

(b) Each month after the first increase under this section, the Commission shall determine the per centum change in the price index. Effective the first day of the third month which begins after the price index shall have equaled a rise of at least 3 per centum for three consecutive months over the price index for the base month, each annuity payable from the fund which has a commencing date not later than such effective date shall be increased by the per centum rise in the price index (calculated on the highest level of the price index during the three consecutive months) adjusted to the nearest one-tenth of 1 per centum.

(c) Eligibility for an annuity increase under this section shall be governed by the commencing date of each annuity payable from the fund as of the effective date of an increase, except as follows:

(1) Effective from its commencing date, an annuity payable from the fund to an annuitant's survivor (other than a child entitled under section 10(d)), which annuity commences the day after annuitant's death and after the effective date of the first increase under this section, shall be increased by the total per centum increase the annuitant was receiving under this section at death, except that the increase in a survivor annuity authorized by section 8 of the Act of May 29, 1930, as amended to July 6, 1950, shall be computed as if the annuity commencing date had been the effective date of the first increase under this section.

(2) For purposes of computing an annuity which commences after the effective date of the first increase under this section to a child under section 10(d), the items $600, $720, $1,800, and $2,160 appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section for employee annuities which commenced after October 1, 1956, and, in case of a deceased annuitant, the items 40 per centum and 50 per centum appearing in section 10(d) shall be increased by the total per centum increase allowed and in force under this section to the annuitant at death.

(*d*) *No increase in annuity provided by this section shall be computed on any additional annuity purchased at retirement by voluntary contributions.*

(*e*) *The monthly installment of annuity after adjustment under this section shall be fixed at the nearest dollar, except that such installment shall after adjustment reflect an increase of at least $1.*

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